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STATE FOR WHA/BSC, INL/LP (JIM HIDES)
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STATE PASS TO USAID FOR LAC/AA
STATE PASS TO USTR FOR LYANG
NSC FOR SUE CRONIN
TREASURY FOR OSIA MAUREEN WAFER
TREASURY FOR OTA WARFIELD, VAN KOCH, MILLAR
COMMERCE FOR ITA SARAH COOK
SOUTHCOM FOR POLAD

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SUBJECT: PARAGUAY POLITICAL AND ECONOMIC UPDATE FEBRUARY 3
- 9, 2007

Classified By: DCM Michael J. Fitzpatrick; Reasons 1.4(b),(d)

11. (U) SUMMARY:

- Pucheta New Supreme Court Chief Justice
- Senator Morinigo in Intensive Care; Driver Dead
- Senate Approves Peacekeepers for Cyprus
- Paraguay Second-Least Competitive Country in Americas
- IPR Unit Attacked in Press

PUCHETA NEW SUPREME COURT CHIEF JUSTICE

12. (C) Supreme Court Justice Alicia Pucheta was appointed the new Supreme Court Chief Justice February 6, replacing Justice Jose Raul Torres Kirmser. Pucheta, who we expect to bring credibility back to the court, is the designated Supreme Court counterpart on corruption and transparency for the Millennium Challenge Account Threshold Program and we expect this to be one of her top priorities. She was appointed to the Supreme Court in March 2004 and is the only woman. Justices Cesar Garay and Antonio Fretes were appointed by consensus as the Supreme Court first vice president and second vice president, respectively. (NOTE: The five-year term of Antonio Fretes expired a few months back and he has yet to be reconfirmed by the Senate. Opposition parties continue to call for his ouster. End Note.)

SENATOR MORINIGO IN INTENSIVE CARE; DRIVER DEAD

13. (C) Senator Jose Nicolas Morinigo, of the Country in Solidarity Party (PPS), is in serious but stable condition after being injured in a traffic accident on his way to Yby Yau, Concepcion Department. The driver reportedly fell asleep at the wheel. Morinigo was planning to attend a rally in support of radio reporter Enrique "Kike" Galeano, who has been missing and believed dead, for more than a year. According to National Police sources, the vehicles two front wheels exploded and rolled over several times, killing the driver and seriously injuring Morinigo (both were not wearing their seat belts). (NOTE: Morinigo is the leader of the PPS in the Senate. The PPS is known to be extremely critical of

the United States, particularly USG foreign policies. End Note.)

SENATE APPROVES PEACEKEEPERS FOR CYPRUS

¶4. (U) The Senate approved a Paraguayan Peacekeeping Force to Cyprus on February 7. The team will consist of 2 officers and 12 Non Commissioned Officers, who will be attached to the Argentine Task Force. This marks the 8th deployment (6-month rotations) of troops to Cyprus in the last four years. In addition to these troops, Paraguay has peacekeeping troops in the Congo, Ethiopia/Eritrea, Haiti, Ivory Coast, Liberia, and the Sudan. (NOTE: Paraguay now has 92 troops serving as peacekeepers. End Note.)

PARAGUAY SECOND-LEAST COMPETITIVE COUNTRY IN AMERICAS

¶5. (U) Paraguay is the second-least competitive country in the region, surpassed only by Guyana (111), in the 2006 Global Competitiveness Report, produced annually by the World Economic Forum. Paraguay dropped from an overall ranking of 102 in 2005 to 106 in 2006. Paraguay was at or near the very bottom of the list in every category evaluated, except Health and Macro Economics, where it was ranked 68 and 90, respectively. A lack of sound and credible institutions remains a significant stumbling block, according to the Forum. Paraguay is among the worst performers for basic elements of good governance, including reasonably transparent and open institutions. The report also notes that Paraguay suffers from poorly defined property rights, unchecked political influence, inefficient government operations, as well as unstable business and financial institutions. The Forum identified other areas of weakness including a corrupt judiciary and high levels of crime that make it difficult for

the business community to compete effectively.

IPR UNIT ATTACKED IN PRESS

¶6. (C) Paraguay's ABC Color published an article accusing Col. Felix Cruz, the director of the Ministry of Industry and Commerce's IPR investigative Unit (UTE), of bribery on February 2. The article merely cited a "confidential source" and claimed that Cruz and UTE had solicited protection money from pirated CD and DVD venders in Ciudad Del Este (CDE), where UTE has been actively conducting raids. Post remains fully confident in Col. Cruz, who has passed a polygraph examination and demonstrated both his integrity and effectiveness. Cruz, who values highly his reputation, asked emboffs for an opportunity to retake the polygraph and submitted his resignation to the Minister of Industry and Commerce, who declined to accept it. Econ Chief was contacted by a US-based investigative agency that works closely with UTE and by the recording industry, both offering their full support of Col. Cruz and UTE.

¶7. (C) The surprising thing is that such articles, against Cruz and UTE, have not appeared more frequently, since public defamation of one's adversaries via the press is a common tactic in Paraguay. One member of UTE speculated that the emphasis of the current Minister of Industry and Commerce on trumpeting UTE's successes has raised the unit's public profile and attracted undue attention. A recording industry investigator told Econ Chief that the separate Paraguayan National Police (PNP) unit in CDE that is supposed to enforce IPR laws, but instead more often collects protection money, is being hurt by UTE's recent raids. Most of those raids have been against venders who have previously paid off the very police officers UTE then takes with it to enforce its operations. Corrupt PNP officers then find it very difficult to collect more bribes, and there is concern that efforts to discredit UTE could grow.

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